

3  
Face -  
China -  
For. Rel.

53

# AMERICAN INVESTMENTS

IN

# CHINA


BY

C. F. REMER

*Published by the Institute of Pacific Relations  
Honolulu, 1929*



**ADVANCE PROOF**



Digitized by the Internet Archive  
in 2017 with funding from  
Columbia University Libraries

# AMERICAN INVESTMENTS IN CHINA

BY

C. F. REMER

Professor of Economics at the University of Michigan

This report has been written in connection with a study of the International Financial and Economic Relations of China now being carried on. Study headquarters are at 209 Economics Building, University of Michigan, Ann Arbor, Michigan, U.S.A.

THE INSTITUTE OF PACIFIC RELATIONS  
HONOLULU, 1929



# AMERICAN INVESTMENTS IN CHINA

## I. A NOTE OF EXPLANATION

The title of this paper promises more than I have it in my power to fulfil. It has seemed best, therefore, to begin with a brief explanatory statement.

An investigation of the international financial and economic relations of China is now being carried on. It will extend over a number of years, includes a visit to China on my part, and is planned to cover the whole of a wide and difficult subject.

In the work of this investigation it has fallen to me to deal with American investments in China. After a brief survey of the situation the conclusion was forced upon me that I would be obliged to undertake a new and independent study. A considerable amount of work has been done on this new study, but it is impossible to say whether it will be successfully completed, since its success depends, in large measure, upon its inclusiveness. In any case it is impossible to present any of the results at the present time.

In addition to undertaking the preliminary work for a new estimate of American investments in China I have tried to bring together every estimate that has been made by others. The number of these estimates is small, but some of them are for recent years, and the task of finding them has resulted in the collection of a large number of partial estimates.

In the following pages I present an account of American investments in China, based upon all of the information available. I have made use of the results of the investigation now in progress and I have not hesitated to make a guess or two when it seemed reasonable to do so in the light of these results.

The members of the Conference are asked to bear in mind this statement and to regard my paper as the best summary I can make of the results of my work so far. I hope I am correct in saying that it presents as much information on American investments in China as is possible in the present state of our knowledge of the subject.

The general comments with which this paper begins are set down in the hope that they will promote discussion and that the results will reach me in writing. It is highly important that those who are working on the study of China's international financial and economic relations be given the benefit of the criticism of such a gathering as the present conference of the Institute of Pacific Relations. My own opinion is that the study of China's international economic relations will prove to be the best approach to an understanding of present-day China. This opinion and the generalizations based upon it will, no doubt, be challenged.

The subject of foreign investments in the Pacific was dealt with at the 1927 conference of the Institute of Pacific Relations and special attention was given to foreign investments in China. "The chief result of these discussions," we are told, "was the realization of the almost complete lack of information concerning the extent, nature, conditions, and effect of the in-

vestments actually in existence at the present time.”<sup>1</sup> To secure this information will be a long task and it may be an impossible one. It will continue to require the coöperation of the Institute of Pacific Relations and it is hoped that this coöperation will be given as generously in the future as it has been during the past year.

## II. CERTAIN GENERAL COMMENTS

Foreign investment in China presents a whole array of problems of a theoretical, historical and practical sort. They range from narrow technical questions in the field of the exchanges to the broadest of problems in the field of international relations and the relations between different civilizations and cultures. A number of these problems have been selected for brief comment. Something in the way of background is thus provided, against which to view the information about American investments which is presented later.

The economist is likely to view foreign investment as a movement of capital from one country to another and to give first attention to the mechanism by which this movement is brought about and to the reasons for the movement. He undertakes to answer two questions; namely, why capital movements take place and how they are brought about.

To the second of these questions—that involving the mechanism of international capital movements—a great amount of attention has been given in the discussions of European economic problems since the war. In these discussions it is called the transfer problem. I recognize that the subject is controversial and difficult. Nevertheless, I believe it possible to state the solution of the problem in general terms to which few economists would take exception. A capital movement from one country to another involves both the export and the import of capital. Confusion and complication will be avoided if we take the viewpoint of one of these countries. Since we have to do with China, we may as well select the capital importing country as appropriate to the occasion.

The import of capital into China involves shifts in China's international balances of payment and such shifts are ordinarily accompanied and induced by appropriate shifts in rates of foreign exchange. The transfer to China ought to mean a fall in the price of foreign money in terms of Chinese money and, probably, an increase in China's excess of imports.

China is on a silver standard for purposes of international transactions, and she has been on a silver standard throughout the period of modern foreign trade and foreign investment. The problem presents itself in this form: Can we find any trace of the mechanism of international capital movements in Chinese silver exchange? There is also the somewhat more general question: What has been the consequence of China's silver standard in the field of capital movements?

<sup>1</sup> *Problems of the Pacific*: Chicago, 1928, p. 139.

It is improbable that capital movements to China have ever been sufficiently large, even for a short period, to create the hope that this effect upon the Chinese exchange would repay detailed study. The obligations of the Chinese Government from the Chinese-Japanese war to the present time have, in fact, been such as to call for transfers out of China and not into China. Neither the borrowings to pay the Japanese indemnity nor the obligations represented by the Boxer Indemnity involved remittances to China. The remittances called for have been the other way. Business investments in China have been much neglected in discussions of these matters, but it is fairly certain that no remittances *to* China on capital account have ever been made in such amounts as to far outweigh the remittances *from* China and so provide an opportunity to verify the theory which the economist applies to the exchanges of a capital importing country.

Among the consequences of China's silver standard in international transactions, under the conditions which have obtained since the seventies of the last century, is probably some check upon investment in China by persons in countries whose currency is based upon the gold standard. The Chinese Government has been obliged to borrow in terms of gold currencies and the Boxer Indemnity was made an obligation in "gold." This fact creates the presumption that investments in China of other sorts have been less than they would have been had China been upon a gold or gold-exchange standard. One of the conclusions of the Japanese Coinage Investigation Commission which reported in 1896 upon the effects of the silver standard in Japan was that there had been "a reduction in the investment of capital made in Japan from gold countries."<sup>2</sup> The Mexican Monetary Commission of 1903 was of the opinion that the silver standard was making it increasingly difficult for capitalists in gold-standard countries to invest in their country.<sup>3</sup> The difficulties of India under silver were in part due to the changes in sterling which the Indian Government had to meet and these changes were due to some extent to borrowings abroad. The Commission on International Exchange in its report on China in 1903 expressed the opinion that both Japan and Russia had found "the adoption of a stable exchange" a stimulus to investments by foreigners within these countries. The Commission was firmly of the opinion that similar results would follow in China and used this as one of the arguments for foreign interest in Chinese monetary reform.<sup>4</sup>

Foreign investment in China is subject to so many varied influences that no one can say how far the adoption of the gold standard would have influenced investment in the past or may influence it in the future, but it is fairly certain that the gold standard would serve as a stimulus.

<sup>2</sup> Matsukaka, *Report on the Adoption of the Gold Standard in Japan*: Tokio, 1899, pp. 162-163.

<sup>3</sup> Kemmerer, *Modern Currency Reforms*: New York, 1916, pp. 484-7.

<sup>4</sup> *Stability of International Exchange*: 58th Cong., 2nd Sess., House Doc. 144, pp. 14, 15.

A different aspect of foreign investments may be introduced by directing attention to the importance of capital movements in the relations between developed and undeveloped countries. The attention which has been given in recent years to the financial state of Europe and to the borrowings of Germany and other European countries in the United States has tended to obscure an outstanding characteristic of pre-war investments. Capital investments before the war were in large measure from developed to undeveloped countries and for purposes of economic development. Of course there are exceptions to this. Loans to the Russian and certain Balkan governments will occur to the reader at once. But loans for political and strategic reasons have seldom been of first importance. For example, it is probable that Great Britain in 1914 held about half of the world's international obligations and Sir George Paish estimated shortly before 1914 that, taking all the facts into account and considering the application of government borrowings, over sixty per cent of British foreign investments had been employed in the construction of railways.<sup>5</sup> Other facts might be cited, but it is no doubt a matter of common observation that capital has moved from developed to undeveloped countries, and that it has been employed chiefly in the introduction of modern transportation facilities and modern industrial equipment.

This is quite consistent with the answer of the economist to the question: Why does capital movement take place? The economist reasons that capital moves from countries where the rate of interest is low to countries where it is higher. Differences in the return on capital give him his first answer to the question. The next step in his reasoning involves greater abstraction and, as is usual in such cases, less general assent. He offers as his explanation of the differences in rates of interest from country to country the fact that additional capital available in an undeveloped country will be put to more "productive" uses than additional capital available in a developed country. In a world in which capital movements are, as a matter of fact, associated with some reasonable interpretation of the word "productive," the economist's explanation will be accepted. It is an obvious fact that advances have been made in international transactions which cannot be regarded as productive. Moreover, in a particular case, or for a particular country, such advances may be of outstanding importance. In general, however, the facts justify the accepted reasoning, and the application of this reasoning to the case of China will now be undertaken.

No one who is acquainted with economic conditions in China will question the fact that the rate of interest is high there; that capital equipment is relatively scarce; and that foreign investment has been instrumental in bringing it into the country. This may seem a trite and obvious statement, but it is worth while to remember, when one is considering the high finance and higher politics of certain loan negotiations, that the movement of capital to China is an economic problem.

---

<sup>5</sup> *Journal of the Royal Stat. Soc.*, June, 1911, vol. 74, p. 185.



Viewed thus, the consequence of a free movement of capital must be such industrial changes in China as to make her economic and industrial life more like that of the United States and Western Europe. Foreign investment, in other words, is bringing and will bring changes in China such as we describe by the phrase, "the Industrial Revolution." This means that more and more capital equipment will gradually come into use; that a higher standard of living is to be expected; and that other consequences to which I give attention below are to be looked for.

Since the modern international relations of China began with foreign trade, one may say truthfully that the changes which are taking place in China are the cumulative consequence of her foreign trade. One may trace the succession of events. Foreign trade brought the steamship to China and it was soon put to use in the rivers and canals of the country. The steamer has been followed by the railway and the cotton mill, and these in turn have led to borrowing by the Chinese Government and the great increase of investment by foreign business men. These consequences have come slowly, but it is certain that they have come to stay.

They have come to stay because there has been an importation of ideas into China along with the goods and capital of the foreigner. One might indulge in speculation upon a question of this sort: When once a group of Chinese clearly understood the construction and operation of the steam engine, was it not certain that the industrial revolution and its many consequences would follow? It is well to bear in mind when capital movements are under consideration that ideas have a power of penetration which is to some extent independent of steamer and bank. Foreign investment in China is no doubt having a profound effect upon the rate at which China is becoming industrialized, but it is a fact that China would be moving toward industrialization, however slowly, if others had not a cent to lend her.

When one has, by a feat of the imagination, seen capital movement as a part of a long process which began with modern foreign trade and which will make China, so far as we can see, more like the nations of Western Europe and America, one is prepared to take the next step and to attempt an explanation of the rate at which change is taking place. In terms of capital movement, this means a study of the checks and hindrances to the free movement of capital to China.

The checks and hindrances upon the side of supply may well be considered first. It may be that the available capital will be insufficient to support an economic development in China upon a great and extended scale. I do not believe this to be the case. The general conditions determining the rate of interest seem to me such as to make it probable that saving and accumulation, that is, the provision of funds, is more flexible and more easily expandable than is the demand for such funds.<sup>6</sup> The great potential supply of movable funds may well have its place in the explanation of the eagerness

<sup>6</sup> See the discussion of this matter in Taussig, *Principles of Economics*: vol. II, p. 17; pp. 32-33.

which the foreigner has displayed at times in the making of loans in China. It is usual to explain this eagerness on grounds of international political rivalry and this explanation is no doubt of first importance, but there is a possibility that an economic factor plays a part.<sup>7</sup> It is possible, in other words, that the available capital may be a stimulus to, rather than a check upon, foreign investment in China.

The important checks are rather upon the side of the demand for loanable funds. I realize that this will seem a strange doctrine to those who are familiar with the eagerness for funds of the military leaders of the immediate past, but it is true, nevertheless. It must be remembered that we have here under consideration not funds for an impecunious general or for a weak and unpopular government, but such funds as are for economic development, for railways, bridges, and mills. The effective demand for economic development is limited and is in turn the chief limitation upon the movement of capital to China.

This is not true of China alone, but is true in general of undeveloped countries. It may be put in a convenient phrase by calling it the principle of capacity to receive. It is in general the capacity of undeveloped countries to receive capital which checks its movement and not the potential supply. This capacity to receive, in China's case, depends upon the social, the economic, and the political organization of the Chinese people and upon the available natural resources of the country.

The inadequacy of China's natural resources has recently been set forth as an ultimate limitation upon the economic and industrial development of the country. It would, of course, follow that capital movement would be subjected to the same limitation.<sup>8</sup> The available natural resources of China are not known. It was the fashion some years ago to picture China as a country with limitless supplies of coal and with other resources in great abundance. Recent work upon the geology of China has brought about a reaction and it has become the fashion to look upon China as having the natural resources for only modest industrial development. I do not think the last word has been said upon this subject, and we must await the results of further study. And there is always the possibility that modern industry will be so altered by the progress of invention as to require natural resources somewhat different from those which it has required in the past.<sup>9</sup>

The limitations upon capital movement which lie in the social organization and traditions of the Chinese people open up a subject which must be dealt with at greater length. China has offered to foreign trade, to foreign ideas, and to foreign capital what may be called passive resistance.<sup>10</sup> This

<sup>7</sup> This was pointed out with special application to the Chinese case by C. A. Conant in his *The United States in the Orient*: Boston, 1900.

<sup>8</sup> See Bain, *Ores and Industry in the Far East*: New York, 1927.

<sup>9</sup> This point has been made by Condliffe in an address on "Industrial Development in the Far East," published in the *Chinese Social and Political Science Rev.*: July, 1928, vol. XII, no. 3.

<sup>10</sup> This is set forth at greater length in my *Foreign Trade of China*: Shanghai, 1926. See the concluding chapter.

passive resistance seems to me to flow from the very nature of Chinese culture. By this I do not mean that Chinese civilization is by nature anti-foreign; what I do mean is that Chinese civilization, being what it is, has the property of resisting foreign commodities and capital. As foreign trade and foreign economic relations have grown, they have, in turn, exercised an effect upon Chinese social organization. But this is a broad subject which must be dealt with independently.

The social, economic and political organization of China as it was in the past may well be called traditional China.<sup>11</sup> The changes which began with the modern foreign trade of China, and which have brought about foreign investment and the development of modern industry and modern means of communication in China, are exerting a profound and, I believe, a disintegrating effect upon traditional China. The disintegration of traditional China is probably the result of other factors as well, but it is my opinion that the international economic relations of China constitute the factor of greatest importance.

Traditional China, if we are to believe both Chinese and Western students of history, had not changed for centuries. No radical transformation in China, comparable to the decline of feudalism in the West and the rise of national states, took place in China from the reign of Shih Huang Ti of the T's'in Dynasty to recent times. We are told that the political principles and the ethical and economic thought of the Chinese are still more ancient and come down to us from the great philosophers of the Chow Dynasty. What is more, we find that Confucius represents himself as no innovator, but as the codifier and transmitter of thought which was old in his time. And we are led back to the days of Yao and Shun to find the origins of the traditions which may be said to have held universal sway over the Chinese people only yesterday. One rebels at this and formulates objections, but one is obliged to recognize the antiquity and the continuity of the Chinese political and social system.

It is difficult to put the essential features of traditional China into a brief general statement, but it must be attempted if the disintegrating effect of modern economic relations with the outside world is to be appreciated.

The outstanding characteristic of traditional China is the importance of the family. Closely associated with this is the importance of agriculture. Traditional China is an apparently endless series of agricultural villages in which the life of the people centers in the family. The family is, of course, the clan family or the great family and not the family as it has come to be in the West since the Industrial Revolution. It has been estimated that four-fifths of the Chinese people live in such agricultural villages.<sup>12</sup> To under-

<sup>11</sup> Here I follow the example of T'ang Leang-li. See the title of Chapter VI of his *The Foundations of Modern China*: London, 1928.

<sup>12</sup> J. B. Taylor, *Farm and Factory in China*: London, 1928, p. 19. Professor Taylor's first chapter presents a sympathetic picture of the agricultural village.

stand the life of these farm villages is to have a keen appreciation of traditional China. There is further reason for giving attention to the farm village. Changes in the economic state of Chinese agriculture will no doubt be indisputable evidence that the general consequences of the Industrial Revolution are appearing. If a rise in the standard of living is to come about in China, it must reach the farm village before it can be said to have gone very far. It is not probable that much evidence can be found of changes in the standard of living of the Chinese farmer.<sup>13</sup>

In the small cities of China there are to be found the landed gentry, minor officials and the handicraft workers. Cottage industry, to which Lieu gives a separate place,<sup>14</sup> was, I believe, of little relative importance in traditional China. A few great cities are to be found that are commercial centers and still fewer that are industrial centers. In these live the higher officials, the merchants, bankers and the wealthier landed gentry. The commercial and industrial life of the cities was dominated by the guild. The power of the family was less complete than in the country; it did not cover so wide a field but it was, nevertheless, the outstanding fact in the social organization. Throughout traditional China the customs and traditions associated with the family and with the guild controlled the Chinese people in their daily affairs.

The political organization of the China of the past may be briefly described as a bureaucracy placed over family and guild. Above the officials was the emperor and his court. If one were to follow the custom of the German writers and give the political organization of China a name, I suppose it might be called a mandarinat.<sup>15</sup>

The characteristic feature of the mandarinat was the government by emperor and officials of a vast number of self-governing families and guilds. To resolve the inconsistency in the governing of self-governing families, one must understand the nature of government in traditional China. The first element is the Confucian doctrine of Exemplary Kingship. "The thing that impresses the reader of the classics, as an outstanding feature of Chinese political thought, if indeed it is not *the* outstanding characteristic, is the constant emphasis upon the need and efficacy of personal morality in governing subjects. Mencius put the matter pithily when he said that it would be as foolish for a man to rule without practicing morality as it would be to climb trees in order to catch fish.<sup>16</sup> Good government was the exhibition of virtue

<sup>13</sup> Japan is a more highly industrialized country than China and yet it is said of the country people of Japan that "they remain chained to the areas, methods, crops, income, and opportunities of medieval Asia while the possibilities of life in the modern world are in plain view, just beyond their reach." Buchanan, D. H., "The Rural Economy of Japan," in the *Quarterly Journal of Economics*: August, 1923, vol. 37, p. 571.

<sup>14</sup> Lieu, D. K., *China's Industries and Finance*: Peking, 1927, pp. 1, 9-12.

<sup>15</sup> Wittfogel, "Probleme der Chinesischen Wirtschaftsgeschichte," in *Archiv für Sozialwissenschaft und Sozialpolitik*: April, 1927, vol. 57, no. 2, pp. 334-5, calls it a *Beamtenstaat* or a *Bauern und Beamtenstaat*.

<sup>16</sup> Pott, W. S. A., *Chinese Political Philosophy*: New York, 1925, p. 69.

so moving as to win the loyalty of the subject and to command reverence. The West is familiar with the proposition that the end of government is the good life; in the Chinese classics it is regarded as the means of government, as well. One must recognize that this is presented as an ideal, but it serves to bring out the point of view toward government to which traditional China gave assent.

Another characteristic grew out of the fact that the payment of tribute has been, throughout the East, evidence of political loyalty. This must be understood in connection with the fact that aliens have frequently occupied the throne of China. The payment of taxes in China has behind it this background. It follows that an important duty of the mandarin was the collection of taxes.

China of the past has been described by Ku Hung-ming as a constitutional monarchy without representation,<sup>17</sup> and the characterization is useful if one remembers that the constitution lies in the customs and traditions of family and guild. This constitution, if it may be so called, by its nature brought it about that traditional China did not have and could not have a central government of the sort that Europe has had since the rise of national states and the Industrial Revolution. The Emperor of China held sway over the families of his people. The officials were his ministers and the payment of taxes was the evidence that he had a loyal and obedient people.

Much has been made of the right to rebel, which may be regarded as a sort of representation. The mandate of Heaven was held to be withdrawn from an emperor whose rule had offended against the customs and traditions of family and guild, and whose offence was accompanied by plain evidence that the welfare of his people was being destroyed.

Traditional China, of which I have given a very inadequate picture, could not and cannot continue to exist in the face of the changes which began with modern foreign trade and which are now associated with foreign investment and industrial development. Traditional China might have adapted itself to modern diplomatic and political relations, if we can think of these as separate, but traditional China could not adapt itself to the modern economic world. It is this thesis which I offer as the reason for my attempt to cover so broad a field.

Early foreign trade and the foreign relations which grew out of the foreign trade after the British East India Company lost its monopoly brought foreign demands for equality of treatment. These demands were hardly understandable in a political organization that applied guild rules to trade and regarded the emperor as the Son of Heaven. This was followed by the demand that treaties must be regarded as binding contracts even though they were contrary to custom and tradition. This view ran counter to the "constitution" of the Empire, as the word is used above. So much

---

<sup>17</sup> Quoted in Erkes, Ed., *China*: Gotha, 1919, p. 103.

has been pointed out by more than one writer.<sup>18</sup> Professor Steiger maintains that "the political and economic theories of the West had, for the Chinese state, disruptive possibilities equal to those which the modern industrialized nations of Europe and America see in the doctrines of Bolshevism."

The problems raised by the early trade soon became political problems and the whole question might, it seems to me, have been dealt with largely in the political sphere if foreign trade had not brought certain consequences in the economic field.

It brought, in the first place, steamers, railways, factories and modern mining, the ideas and equipment which go with modern industry. Modern transportation facilities and modern industrial equipment are bringing territorial division of labor into a community of economically independent agricultural villages. These changes necessitate economic and political organization on a national scale. Such organization is incompatible with the maintenance of traditional China.

Modern industrial equipment has come, in part, as the result of the direct investments of foreign business men and this has brought problems to which I shall refer presently. In part it has come through loans to the Chinese Government. Foreign loans have brought the necessity for a new view of taxation. If a government is to borrow for railway development, operate railways, and collect taxes to meet its foreign obligations, it cannot succeed so long as its people regard taxation as they did when it was the gathering of tribute for the imperial court.

China must have an integrated economic and political system covering the whole country if she is to meet the problems of modern industry and the import of capital. An integrated economic and political system on a national scale is inconsistent with essential features of traditional China. There is no more interesting and no more practical study than that of the theories and policies by which China resolves this dilemma, for these theories and policies will form an important part of the very foundation of modern China.

I am tempted, before turning to the last of my general comments on foreign investments, to make an application of my generalizations to the present political difficulties of China. In the past, revolution in China has meant resistance to the demands of the emperor and his officials. To rise against the imperial government was the people's protection and so long as the Manchus were in power there was the added satisfaction of resisting a dynasty which was not Chinese. Today the necessary revolution is the creation of a central government of a sort which has not existed in the past. When a unified railway system is in existence, or a central bank, free from the disruptive influences of traditional China, the significant Chinese revolution will have made progress.

---

<sup>18</sup> By no one more clearly than by Steiger in his *China and the Occident*: New Haven, 1927, pp. 1, 10, 11. The quotation is from page 10.

My final comments concern foreign investments as an aspect of the relation between foreigners and Chinese within China. I have in mind the whole set of phenomena which the words extraterritoriality, treaty ports and treaty tariff bring to the mind of those who are familiar with the international relations of China.

There is no need to point out how this system arose. The existence of foreign trade lies behind it. On the Chinese side it grew out of the attempt to deal with foreign traders by the guild method. The difference between the legal concepts and the judicial practices of traditional China and of the Western nations, their conflicting views as to adequate punishment for criminal acts, have been dealt with by a number of writers. I am interested rather in the economic aspects of this system and especially in its relation to foreign investment and the introduction into China of capital equipment and modern industrial methods.

It has been pointed out above that the nature of Chinese social and economic organization was such as to offer passive resistance to foreign trade and foreign capital. The treaty port and extraterritoriality system overcame, or pushed aside, this resistance in a few cities. From this have flowed certain consequences which are worth consideration.

The position of the foreigner in China has brought it about that China's foreign relations have been concerned to a surprising degree with events taking place within China. One has but to turn to the diplomatic correspondence between China and any one of the foreign powers to become convinced of this. On the economic side this means that problems of increasing economic complexity have had to be dealt with by the methods of international diplomacy which were not designed to deal with them. This is true not only of matters of public interest such as the tariff, but of the rights of a foreign business corporation within China. As MacMurray has pointed out, "Matters which would elsewhere be of merely commercial character, susceptible of judicial determination in case of dispute, are in China matters of international political concern, for the settlement of which the ultimate recourse is to diplomatic action."<sup>19</sup> The ultimate problem here is the reconciling of the theory of the complete political independence of states with the hard facts of economic interdependence. The abolition of extraterritoriality and the Chinese conventional tariff do not solve this ultimate problem. We have only to observe the international economic problems of post-war Europe to become convinced that national independence does not solve international economic problems.

A further consequence of the position of the foreigner in China is the fact that foreign investment in China has been in large measure direct investment by foreign corporations and business firms. The slowness of the

---

<sup>19</sup> MacMurray, J. V. A., *Treaties and Agreements with or concerning China, 1894-1919*: New York, 1921, vol. I, p. xv.

Chinese to make effective use of the corporation and the nature of the Chinese government are minor factors of importance. The foreign investments of the world are in large part brought about by the purchase in one country of the corporate and government securities of another. So generally is this the case that estimates of foreign investments in Europe and America, as, for example, of American investments in Germany, frequently disregard altogether the direct investments of business firms. Such direct investments are of considerable importance in every case,<sup>20</sup> but in a study of foreign investment in China they are the first item to be considered. It may be remarked, also, that direct business investments offer the greatest difficulties to the investigator for reasons which are obvious.

Direct foreign investment in China was limited before the signing of the Treaty of Shimonoseki in 1895. By this treaty the Japanese and, by the operation of the most-favored-nation clause, foreigners in general secured the right to engage in manufacturing in the open ports of China. Since 1895 certain of the treaty ports of China have become industrial centers of considerable importance and this has been, in no small measure, the result of direct investment by foreigners. It is not improbable that these direct foreign investments are twice as great as all other forms of foreign investment. The geographic distribution of modern industrial establishments in China, the early economic development of Shanghai, and the rapid development of Manchuria are connected with the importance of direct investments of foreigners under the conditions which have prevailed in China.

I leave it to the reader to supply his own comment on the responsibilities that go with the important part which foreigners have had in the introduction of modern industrial establishments into China. If the system of treaty ports and extraterritoriality is to continue it is necessary that attention be given to the problems of labor and taxation which are involved.

The relation of foreign loans to the government finance of China and to railway development has been more generally discussed than any other aspect of foreign investment, in spite of the fact that direct business investments are of greater quantitative importance. There are a number of reasons for this. The mere fact that there has been more available information about China's government loans than about business investments seems to explain it in part. A reason of greater importance is that loans to the Chinese government and especially loans for railway construction have played a conspicuous part in international rivalries in the Far East. These rivalries have been seized upon by newspapers and by popular writers. A whole romantic literature has grown up about these rivalries. They have played a part in two wars in the East and in the World War. They have given currency to such phrases as "economic imperialism," "peaceful penetration," and "conquest by railway and bank," phrases which help to explain the suspicion with which the Chinese have come to regard foreign relations

<sup>20</sup> A figure of \$5,000 million is mentioned by Hall in "The Balance of International Payments of the United States in 1928," *Trade Information Bulletin No. 625*: Department of Commerce, Washington, 1929, p. 44.



of every sort. Here we touch a wide problem, the relation of economic interests to war, and to the state of the public mind which makes wars probable. The problem is not confined to China, the Far East, or any part of the world, but it may well be that a re-examination of the course of events in China will throw some light upon it.

The position of the foreigner in China has developed from earlier trade relations. These trade relations have, in turn, brought investment and modern industrial establishments. Foreign investment in the securities of the Chinese government has been to a considerable extent for the financing of railways. The foreign communities in China are largely communities of business men. Economic interests and economic considerations have played a major part in China's foreign relations. At the same time, it must be admitted that the direct economic effects of these relations seem to have been small and the effects in other fields to have been greater. This is very largely because the resistance offered by traditional China to foreign trade and foreign capital confined them to a few open ports. The whole of China's foreign trade is small, when the size and population of the country is taken into consideration. The whole foreign investment in China is by no means large. But the circumstances under which the trade and investment have grown up and are carried on have given foreign interests in China a political importance out of all proportion to the direct economic consequences attributable to them.

No one can attempt to survey the economic consequences of China's foreign relations without coming to the conclusion that the strong feelings betrayed by the Chinese and the interested foreigners are to a considerable degree the result of the political and psychological aspects of the matter. From the point of view of the foreigner, extraterritoriality comes to be looked upon as a badge of superiority of the white, Anglo-Saxon or foreigner; from the viewpoint of the Chinese, it seems to carry with it the announcement to the world that the Chinese are not quite as good as other people. When the position of the foreigner in China is seen in these terms, a cool examination of the possibilities in the situation becomes impossible.

Without attempting to anticipate the results of a more complete examination of the economic consequences of the position of the foreigner in China, one may offer certain observations. If changes in the position of the foreigner are to be made they ought not to be for the purpose of decreasing the flow of goods and capital. Whatever may be the political problems involved, there is good reason for supposing that the material welfare of China will be increased by the import of capital. And, it may be added, prosperous countries have usually found it possible to secure from others fair consideration for their political difficulties.

I have tried to present foreign investment in China by giving attention to four aspects: (1) The movement of capital to China presents problems in the field of the exchanges and of trade balances. These problems are

problems of theory and its verification. (2) The movement of capital to China is an aspect of the relations between developed and undeveloped countries. (3) Foreign investment in China is a part of the change which means the disintegration of traditional China. (4) Foreign investment in China is an important aspect of the system of treaty ports and extraterritoriality which has grown up in China. Its relation to Chinese government finance and to international rivalries in the Far East has been mentioned.

It is obvious that too much has been said to serve merely as an introduction to the consideration of American investments in China. It is also obvious that too little has been said to make this a finished essay upon foreign investment in China. I trust it will be accepted for what it is, a statement of my observations, written down in the midst of my work in the hope that it will bring criticism and comment from those who are interested in a subject which will grow more important in Pacific relations with every passing year.

### III. AMERICAN INVESTMENTS IN CHINA

The following account of American investments in China is based upon every known estimate of such investments. These estimates are few in number, as will appear, but, fortunately, several of them are of recent date. The latest of them was undertaken by the Department of State of the United States Government within the last two years. A new investigation of American investments in China is now in progress, but its success is still in doubt, since it depends upon wide coöperation. It has not been possible to make direct use of the available results of the new investigation, and none of the earlier estimates cover the whole field. I have, therefore, combined totals and supplemented with information obtained from other sources, where I could, in order to make this account as complete as possible.

Certain conclusions are to be found in the closing paragraphs. These are, of course, tentative and it is possible that my final conclusions will be somewhat different. I have tried to provide the informed reader with sufficient information to enable him to come to his own conclusions as to which of my generalizations are likely to be modified.

The investments are presented under three divisions. These divisions have been found useful for both historical and analytical purposes and in the plans for the investigation now being carried on. Each of the divisions requires a word or two of explanation.

The first division is Business Investments. This covers all direct investments in China by American business men and corporations. The importance of such investments is a characteristic of the Chinese situation. They are connected with the existence of treaty ports, extraterritoriality, and the position of the foreigner in China.

American holdings of Chinese securities and the obligations of the Chinese Government form the second division. This includes such issues of Chinese securities as may have been made in the United States and pur-

chases by Americans of Chinese securities issued in other countries. It includes also advances to the Chinese Government and the sale of supplies to the Government and to Government institutions. It is plain that no sharp line can be drawn between certain of these obligations of government institutions for supplies and business investments, since the debts are usually due to American firms in China. The usual practice has been to include such debts under this second heading, rather than under the first.

The third division includes the property in China of American mission and philanthropic societies. There are, in addition, certain educational and scientific institutions. It may be questioned whether such property represents investment at all. There is no expectation of a monetary return on the part of its owners, nor is there usually any expectation that the funds so placed will ever be withdrawn from China. There is thus a sharp difference between mission and business investments which has at times been blurred by careless writers. At the same time, the purchase of land and the erection and equipment of buildings in China for mission purposes requires that remittances be made to China. Such remittances play the same part in the mechanism of capital movement and in China's balance of payments as remittances for business investment or advances to the Chinese Government.<sup>21</sup> Remittances to China for land, buildings, and equipment must be dealt with as investments for certain purposes, even if, in the long run, they prove to be gifts to the Chinese people and not investments at all.

There is an additional reason for observing the matters dealt with in this division. The value of the property of mission and philanthropic societies is an index of general American interest in China which may not be neglected without running the risk of presenting a false picture.

I propose to examine the nature and extent of American investments in China over certain brief periods, or at certain years. For the first of these periods I turn to Canton shortly before the signing of the Treaty of Nanking and the opening of the five ports.

The trade of those days was small and was largely in the hands of the British. Morse states that the average for the sixteen years ending in 1833 was \$48 million for the combined trade of Great Britain and the United States, of which the American share was about \$8.5 million.<sup>22</sup> It is well known that the sum of \$8.5 million is considerably greater than the actual trade between the two countries, for it includes non-American goods brought in American ships.<sup>23</sup> Throughout the early trade and, indeed, until the sev-

---

<sup>21</sup> In studying the mechanism of capital movements all payments for which there is no *quid pro quo* have certain common characteristics, which explains the apparent anomaly in the study of German reparations when the mechanism of capital movements is under consideration. The anomaly disappears when we turn to capital investments as the result of differences in rates of return. Mission funds do not come to China because interest rates are high.

<sup>22</sup> Morse, H. B., *International Relations of the Chinese Empire*: vol. 1, pp. 89-92.

<sup>23</sup> Statistics from American sources are brought together in a convenient table in Pan, S.L., *The Trade of the U.S. with China*: New York, 1924, p. 15.

enties, the importance of American shipping was an outstanding characteristic of American participation in the trade of China. Morse gives the average number of American ships during the same sixteen years as 37 and of British ships as 56. American ships, however, represented an investment in the carrying trade of the world, and not an investment in China.

Turning to Canton in the days of the factories, we find a census of foreigners and foreign firms for the year 1836 in the Chinese Repository.<sup>24</sup> According to this census the foreign population of Canton was 307 and the number of firms 55. Of the foreign population, 44 were American, and of the firms, 9, a percentage of 14 and 16 respectively.

Among the nine American firms were Olyphant & Co., Russell & Co., and Wetmore & Co. Morse estimates that it required no less than about \$250,000 a year to keep up these establishments.<sup>25</sup>

The amount of actual property owned by Americans in Canton during these years is not easy to estimate. A young American, who was for a time a partner of Russell & Co. in Canton, wrote home to his mother late in 1835 giving her an account of a fire which threatened the factories. He had found it necessary to place the goods of his company on a boat for safe-keeping. "We had," he says, "about \$300,000 in our treasury and perhaps \$50,000 worth of goods in the house."<sup>26</sup> Another and later fire gives us additional information. During the events which led to the "Arrow" war, the Canton factories were completely destroyed in December, 1856. The claims of the American firms for damages are reprinted in an American Government document.<sup>27</sup> The largest claim allowed we find to have been that of Purdon & Co. for \$111,000. Another firm was allowed \$98,000. Russell & Co. submitted various statements which show the property of the firm to have been valued at about \$100,000. The total amount paid by the Chinese Government was Tls. 500,000 (\$735,239), of which a part was later returned to the Chinese Government.<sup>28</sup> The total included other losses than those by fire at Canton, but the information about individual firms gives us some idea of the value of the goods on hand. It is probable that the silver had been removed from the treasuries when the fire took place.<sup>29</sup>

The amount of silver at any one time was large, especially before 1827. I have estimated elsewhere that 60% of the value of the goods brought to

<sup>24</sup> Jan., 1837, vol. 5, pp. 426-32.

<sup>25</sup> Morse, *Int. Rel.*: vol. 1, p. 83.

<sup>26</sup> Hughes, Sarah Forbes: *Letters and Recollections of John Murray Forbes*: New York, 1899, pp. 76-7. It is interesting that Forbes began his business career in the China trade and ended it as chairman of the board of an American railroad in the Middle West.

<sup>27</sup> *Message of the President of the United States Relative to the Execution of the Treaty with China for the Settlement of Claims*, 40th Congress, 3rd Session. Ex. Doc. No. 29, Washington, 1869. A summary statement of claims is to be found on pp. 158-161.

<sup>28</sup> Foster, J. W., *American Diplomacy in the Orient*, p. 244. The sum paid over in 1885 amounted, with accrued interest, to \$453,400.

<sup>29</sup> This is Morse's opinion also. *Int. Rel.*: vol. 1, p. 435.

China by the Americans from about 1800 to 1834 was in the form of silver.<sup>30</sup> This percentage was greatly reduced during the later years. It is not unreasonable to suppose that the large amount of silver held by Russell & Co. in 1835 was characteristic of American firms in general.

The foreign firms of the factory days were not permitted to own either land or buildings<sup>31</sup> but hired buildings from the Chinese hong merchants at moderate rates. Another factor in estimating investments is highly uncertain, namely, the amount advanced by the hong merchants to the American firms. Dennett is of the opinion that this was large in the early days of the American trade.<sup>32</sup> It is probable that the Americans were trading on their own capital after the Napoleonic wars.

Considering all the available information, it may be estimated that American investment in China at any one time during the late thirties, that is, during the closing years of the period before the treaties, consisted of about half a million dollars in goods and about \$2.5 million in silver; say, three million dollars altogether.

An unconsidered aspect of these early investments is brought out in the correspondence of John Murray Forbes, who mentions the fact that after his return to the United States he had the management in his own country of "about half a million of my friend Houqua's money."<sup>33</sup> This money was invested, we are told, in American stocks. This adds to the uncertainty of our estimates for this early period. The total of three million dollars of American investments in China is no more than a guess.

The period of the seventies of the last century is to be considered next. By the seventies the Suez Canal had been opened; there was telegraphic communication between China and the West; steam shipping had become important; and Shanghai had become the chief port for foreign trade. Such imports into China as cotton yarn and kerosene oil began to increase and to give the trade the characteristics of a later time. This period marks the close of the American trade of earlier days. The great American firms and the New England ships declined in importance or disappeared altogether.

Certain figures will serve as a rough index of the importance of American interests in China. The total trade of China was about the same in value in 1871 and 1875, and of this total, Hk. Tls. 137 million, the American share was 7.7% and 6.3% for these years. The statistics of the United

<sup>30</sup> Remer, C. F., *The Foreign Trade of China: Shanghai*, 1926, p. 24.

<sup>31</sup> MacNair, H. F., *Modern Chinese History—Selected Readings: Shanghai*, 1923, p. 27. MacNair has reprinted this from W. C. Hunter's *Bits of Old China*.

<sup>32</sup> Dennett, Tyler, *Americans in Eastern Asia: New York*, 1922, p. 52.

<sup>33</sup> Hughes, Sarah Forbes, *op. cit.*, p. 101. Houqua was the wealthiest of the Chinese hong merchants.

States Government do not give figures for China, separate from Hongkong, until 1875 when the total trade was 15 million dollars; it did not reach 20 million dollars until 1880.<sup>34</sup>

The total number of foreign firms in China during the early seventies was about 350 and the foreign population about 3,500. In 1874 American firms formed 14.7% of the total, and in 1877 10.6%. The percentage which the American population formed of the total foreign population was 15.2% for 1874 and 10% in 1877.<sup>35</sup> These percentages do not differ radically from those of the Canton days. In 1874 the American missionaries in China number 210, or about 40% of the American population,<sup>36</sup> and comprised about the same percentage of the total number of Protestant missionaries in the country.

American shipping in China gives us the most important single clue to the total American investment in the country. The total tonnage of the shipping that came under the view of the Chinese Maritime Customs was 7.3 million tons in 1871 and 11.9 million tons in 1877. Of this total no less than 43% was American in 1871. A French officer of the Maritime customs said of the Americans, "it is impossible to compete with their steamers, except by opposing them by others of the same kind, built on the same model." Seven out of the nine steamers on the Yangtze were American in 1865. An American boat, the Suwonada, "bears the palm for the rapidity of her coast voyages."<sup>37</sup> An American official writing ten years later explained the large American share in shipping as due to the superiority of American models and "the enterprise and good fortune of a few of our citizens." He concludes his comment by questioning "whether this interest is not already on the wane."<sup>38</sup>

Such was the situation in the early seventies. In 1876 the American percentage had declined to 24 and in 1877 to 5. The explanation of the sudden drop from 2.5 million tons to half a million is the sale of the entire fleet of Russell & Co. to the recently formed China Merchants Steam Navigation Co.<sup>39</sup> The fleet was owned by the Shanghai Steam Navigation Co. in which Russell & Co. held the chief interest. The sum received for the boats was Tls. 2 million, but in addition the Shanghai Steam Navigation Company retained its reserve fund so that they received Tls. 2.4 million.<sup>40</sup> At the rate of exchange of the time the sum is about \$3 million in United

<sup>34</sup> Statistics in taels are from the reports of the Chinese Maritime Customs and those in dollars from the *Statistical Abstract of the United States*.

<sup>35</sup> Figures from U. S. Government: *Report upon the Commercial Relations of the U. S. . . . 1875*, pp. 252-3; 1878, p. 238.

<sup>36</sup> U. S. Government, *Commercial Relations, 1875*, p. 253.

<sup>37</sup> Great Britain: *Reports from the Foreign Commissioners at the Various Ports in China for the year 1865*: London, 1867, p. 137.

<sup>38</sup> U. S. Gov't: *Commercial Relations: 1876*, p. 257.

<sup>39</sup> It happens that the steamers of the Pacific Mail Steamship Company were sold to the Japanese Government during the same year. Chinese Maritime Customs: *Reports on Trade, 1878*, p. 99.

<sup>40</sup> U. S. Gov't: *Foreign Relations, 1877*, pp. 87, 90; *Commercial Relations, 1878*, p. 219.

States currency, and we may accept this sum as a part of the American business investments of the years immediately before the sale.

Further information concerning American investments is limited to Shanghai. We are told in a document of 1856 that "property in houses and lands to the value of a million dollars is owned by Americans in Shanghai."<sup>41</sup> It is probable that this includes both business and mission property. American property was largely in the part of Shanghai called Hongkew and the land alone in Hongkew is reported to have been valued at almost exactly Tls. 2 million in 1880.<sup>42</sup> It is not unreasonable to suppose that American holdings were considerably greater by 1875; say, \$2 million.

We know also that in 1882 the land in the International Settlement at Shanghai and in the French Concession was valued by a local Chamber of Commerce at Tls. 24 million and the stocks of merchandise at Tls. 32 million.<sup>43</sup> If we suppose that half of the American holdings of land and houses were for business purposes and that stocks of goods in the hands of American business men were equal in value to their houses and lands, we may add a sum of \$1 million for such stocks and goods. There was at the time no sale of Chinese securities abroad and there had been in 1874 no loan to the Chinese Government of which we have record.

The conclusion is that American investments in China, without attempting to separate the property of missions, was around the year 1875, about as follows: Shipping, \$3 million; land and buildings, \$2 million; stocks of goods, \$1 million. This makes a total of \$6 million and is probably an underestimate.

I turn next to the years between the Sino-Japanese war and the Boxer Uprising; that is, to the years from 1895 to 1900. Railroad and industrial development was still in the future, but the trade had shown great progress since the seventies. Shanghai had grown in importance, and foreign interests in general were greater. Let us turn to the figures showing the share of the United States.

For the year 1898 the Chinese Customs statistics show that China's total trade was Hk. Tls. 369 million, and that the direct trade with the United States was 6.2% of this, almost exactly the same percentage as for 1875. The year 1899 saw a great increase in trade and the American share was 9.5%, a higher percentage than for any year since 1871. The American statistics show the trade to have been about \$30 million for these years. Imports from the United States, it may be remarked, had increased relatively to exports to the United States.

The statistics of foreign population show that Americans formed about the same percentage of the foreign population as in the seventies and in the

<sup>41</sup> U. S. Gov't Dept. of State: *Report on the Commercial Relations of the U. S. with all Foreign Nations*: 34th Cong., 1st Sess., Ex. Doc. No. 47. Washington, 1856, vol. I, p. 257.

<sup>42</sup> *Chronicle and Directory for China, Japan, etc., for the Year 1899*: The Daily Press, Hongkong, 1899, p. 138.

<sup>43</sup> *Chronicle & Directory . . . for the year 1899*, p. 138.

thirties: 15.2 in 1898, 13.6 in 1899, and 11.3% in 1900. The number of firms had grown to 70 in 1899 and 81 in 1900, but there was a noticeable falling off in the percentage which American firms formed of the total. It was 5.5% in 1898, 7% in 1899, and 8% in 1900; in the seventies it had been from 10 to 15%. The presence of certain large American firms may help to account for this, but it is probable that the chief reason was that mission activities had grown more rapidly since the seventies than business activities. My own figures show that the number of American mission societies represented in China increased from 15 to 31 between 1875 and 1900. The number of American missionaries in 1899 was about a thousand.<sup>44</sup>

American shipping in Chinese waters continued to decline from the low point it had reached in 1875 and it was at no time greater than 1% of the total shipping in the trade. The years 1884 and 1885 are an exception. Russell & Co. held the fleet of the China Merchants Steam Navigation Co. for a brief period while China was at war with France.<sup>45</sup>

We have at best but scattered and incomplete information about American business investments in China. We know that the 70 or 80 American firms included some of great importance. The Standard Oil Company, for example, must have had a considerable investment. Kerosene oil had grown in importance as an import and in 1898 about 100 million gallons were brought in, one-half coming from the United States. Among the other firms of importance were the American Trading Co. and Fearon, Daniel & Co.<sup>46</sup> Each of these two firms formed a company to build and operate a cotton mill in Shanghai. The two mills were in operation in 1899, but by the end of 1901 one of them had failed.<sup>47</sup> We do not know how much Chinese and British capital was supplied for these ventures. The total capital for the two was probably about 2 million Shanghai taels.

We have an estimate which puts the total land value in Shanghai at about 50 million taels for 1899 and the stocks of goods at 60 million taels. We know also that the funded debt of the Shanghai municipality was about Tls. 1 million and that most of this was held in Shanghai. There were in the Settlement about 360 Americans out of a total population of 5,000 foreigners.

The number of open ports in China was 29 at the end of 1898, and we may suppose that the continued increase in the number of these ports called for additional American investment. One is tempted to say that the total American business investment was more than double that of 1875, but it is perhaps best not to set down any figure.

<sup>44</sup> *The Christian Occupation of China* (Shanghai, 1922, p. 346) gives the number of American Protestant missionaries in China as 513 in 1889 and 1,304 in 1905. *The Missionary Review of the World* (February, 1899, vol. 12, no. 2, p. 93) gives 967 as the number of foreign workers in China under American societies.

<sup>45</sup> Dennett, Tyler (*Americans in Eastern Asia*, p. 586) notes this fact and deals with certain general aspects of the decline of American shipping.

<sup>46</sup> Said by Lord Charles Beresford (in *The Break-up of China*, New York, 1899, p. 94) to have been "half English."

<sup>47</sup> *Chinese Maritime Customs: Returns of Trade & Trade Reports: 1898*, p. 245, 1901, p. 289; *Directory and Chronicle* . . . : 1899, p. 147; 1905, p. 215.



American holdings of Chinese securities and of the obligations of the Chinese government probably amounted to little. If there were any such holdings they were the result of purchases abroad of bonds which were issued in connection with the three large loans to meet the Japanese indemnity.

The period from 1895 to 1900 was one of fevered, if somewhat ineffectual, activity in the promotion of railway schemes in China. These schemes must be seen in the light of the political rivalries of the time. Railroad loan agreements, non-alienation agreements, the leasing of ports to foreign powers were the guns fired in the "battle of the concessions." John Hay's reassertion of the open-door policy was called forth by the danger of the partition of China among the powers. It is an interesting fact, and one which throws light upon the subject of immediate interest, that Hay seems to have trade in mind and not investments. Dennett is of the opinion that "there was not enough American money seeking investment to make it worth while to quarrel about the preferential rights to construct railways or operate mines which had already been given to other powers."<sup>48</sup> The importance of investment in connection with the Open Door became clearer through the years that followed and much study was given to such a formulation of the policy at the Washington Conference as would cover the movements of capital, as well as those of goods.

In 1900 the Americans had one important railway loan contract which they were to lose, that for the construction of the Canton-Hankow Railway. They had had earlier opportunities but these had come to nothing. The Canton-Hankow agreement in its original form was signed on April 14, 1898, within a few days of the beginning of the Spanish-American War. After some delay a preliminary survey was made and in July, 1900, a supplementary agreement was signed, increasing the sum involved.<sup>49</sup> This supplementary agreement contained an article (the 17th) which provided that "the Americans cannot transfer the rights of these agreements to other nations or people of other nationality." When, by the purchase of shares in New York, the Belgians acquired control of the American China Development Co., the Chinese demanded the cancellation of the agreement. J. P. Morgan & Co. secured the control of the Company, but the Chinese insisted on getting things back into their own hands and bought out all property of whatever sort of the China Development Company in China for the sum of \$6.75 million.<sup>50</sup> There have been charges of bad faith in connection with the acquisition of control by the Belgians. Without seeking to defend the interested Americans, I venture the opinion that no one can

<sup>48</sup> Dennett, Tyler: *Americans in Eastern Asia*, p. 648.

<sup>49</sup> Texts in Rockhill, W. W., *Treaties and Conventions*: Washington, 1904, pp. 252, 259. The agreement cancelling the concessions is in MacMurray, *Treaties and Agreements*: Vol. I, p. 519.

<sup>50</sup> Certain bonds of the Chinese Government retained by Americans at the time played a part in the Hukuang Railway Loan Agreement.

go through the history of the Canton-Hankow Railway Loan during these years without coming to the conclusion that the underlying cause of the difficulty was that capital for such foreign ventures was extremely scarce in the United States in 1900. If American funds had been available the Company would, in all probability, not have had its other troubles.

This failure, and others which preceded and followed it, may be said to have been caused by the lack of funds seeking investment in the United States and by the fact that railroad and other contracts in China had a value and importance—for reasons connected with policies, strategy, and prestige—out of proportion to their economic value. If one is to explain the political moves upon economic grounds, one must look for an ultimate rather than an immediate economic motive. The immediate cause of activity in the economic field seems, in this case, to have lain outside the economic field.

Concerning American missionary activities in China at the beginning of the year 1900, we know that there were about 1,000 missionaries representing 31 societies. This is to be compared with 210 missionaries representing 15 societies in 1875. There were about 60 American mission hospitals in China at the time, about half of the total number in China. It is probable that more than half of the educational institutions were American. The total number of "students in Christian schools" was reported in *The Christian Occupation of China* to have been 10,000 in 1889 and about 30,000 in 1905.<sup>51</sup> No one undertakes to give either the total value of mission property in China or the amount of the remittances to China for mission and philanthropic purposes. We find in statements concerning the property that it must have been worth many millions of dollars. The American societies were awarded \$570,-983.75 in the Boxer Settlement and it is well known that only a small part of the total mission property was destroyed in 1900.<sup>52</sup> If one were to guess at the total value of American mission property in China at the end of 1899 he would probably put it at from \$10 to \$20 million. I will not venture to guess at the total business investment, and the American holdings of Chinese securities were so small as not to deserve consideration.

By the year 1914 important changes had taken place in China, but the later effects of the Chinese revolution had not made themselves manifest. Europe was on the eve of a war which was to involve the world and alter the position of the foreigner in China. It will be worth while to attempt an estimate of American investments in China as they were at the end of 1913.

The foreign trade of China in 1912 and 1913 was twice as great as it had been in 1898 and 1899. The American share of this increased trade was about twice what it had been at the earlier date and in the seventies. Imports

<sup>51</sup> *The Christian Occupation of China*: Shanghai, 1922, p. 346. The estimates of 1899 are based upon Beach, H. P., "China as a Mission Field," *Missionary Review of the World*: Feb., 1899, vol. 12, no. 2, pp. 86-98, and table on page 93; and upon Dennis, J. S., "Missions in China," *Rev. of Rev.*: N. Y., Sept., 1900.

<sup>52</sup> Latourette, K. S., *A History of Christian Missions in China*: N. Y., 1929, p. 253. The amount awarded was more than half again as large as the claims of the societies.

from the United States were now usually about equal to exports. This increase in the relative importance of imports probably meant increasing American business investments in China.

The number of Americans in China continued to grow, as did the number of American firms. The customs statistics give the number of American firms as 131 in 1913 and the number of Americans as 5,340. For 1914 the figures were 136 and 4,365. It is when we turn to the percentage these figures formed of the totals, that we encounter an important difference from the situation in 1900. In 1899 Americans formed 13.6% of the foreigners in China and in 1913 no more than 3.2%; American firms were 7% of the total foreign firms in 1899 and only 3.4% in 1913. The chief reason was a great increase in the Japanese and Russian population in China and in the numbers of Japanese and Russian firms. There had been no important change in the American position in relation to the interests of the Western European nations. American shipping in 1912 and 1913 was still no more than about 1% of the total reported by the Chinese customs.

An examination of the available statistics shows that the missionary and philanthropic activity of American societies increased as rapidly or perhaps more rapidly than did business activity. American missionaries in China numbered about 2,500 in 1914, about 40% of the total American population.<sup>53</sup> For the years now under consideration we have somewhat more information than for 1899, but comparison is difficult. The number of missionaries was two and one-half times that in 1900. The number of hospitals supported by Americans had increased from about 60 to 200. The number of schools maintained by Americans was probably three times the number in 1900. An estimate of the value of the plant and equipment of five important American institutions of higher education for 1914 put the total at \$1.5 million.<sup>54</sup> The property of the American Y. M. C. A. was reported at about the same time to have been \$1 million.<sup>55</sup> It is estimated that American mission societies were remitting to China at the rate of about \$3.5 million in 1916, and that four important American societies remitted \$1.8 million in 1917 or 1918.<sup>56</sup> If later figures may be accepted, the value of mission property may be estimated at about eight times the annual remittance, and this would give us \$28 million as the total value of mission property. Some such figure may be held reasonable on other grounds as well. So we come to an estimate of about \$25 million for the 1914 value of the property of American mission and philanthropic societies in China.

---

<sup>53</sup> Estimates of 2,309 for 1915 and 2,858 for 1916 are to be found in Arnold, Julian, *Commercial Handbook of China*: Washington, 1919, vol. I, p. 423, and vol. II, p. 288. In the references which follow, the two editions of this book will be distinguished by giving the date in each case.

<sup>54</sup> *Commercial Handbook of China*: 1919, vol. II, p. 429.

<sup>55</sup> *Commercial Handbook of China*: 1919, vol. I, p. 288.

<sup>56</sup> *China Mission Year Book*: 1919, p. 297. *Commercial Handbook of China*: 1919, vol. I, p. 287; vol. 2, p. 423. The last reference is to an estimate by Dr. Frank Rawlinson of \$3,572,780 for 1916 which was based upon an investigation in Shanghai. See also Sammons, Thomas, "American Missions in China," *Millards Review* (later *China Weekly Review*), July 7, 1917, vol. I, no. 5, pp. 120-21.

It is impossible with our present information to make an estimate of American business investments for 1913 which can be defended. It has been pointed out that there were some 130 American firms in China and that the American population was over 5,000. American trade with China amounted in 1913 to Hk. Tls. 73 million, according to Chinese statistics, and to \$65 million, according to American statistics. Trade with the United States formed 7.6% of China's total trade in 1913. It had risen in 1905 to 15%, but this rise was connected with the Russo-Japanese War. The trade in kerosene doubled between 1899 and 1913 and the American share of this doubled trade had increased.

The foreign population of Shanghai in 1910 was 13,436, and the American population 940; for 1915 the figures were 18,519 and 1,307.<sup>57</sup> There was now an American bank in China, the International Banking Corporation, with a branch at Shanghai and four other branches in the country. When this bank was taken over by the National City Bank of New York in 1916<sup>58</sup> it had capital, surplus, and undivided profits of about \$8 million, but it must be borne in mind that it had branches in Europe and South America, as well as in the Far East.<sup>59</sup> American banks had suffered certain disabilities before the passage of the Federal Reserve Act and certain supplementary acts. An American Chamber of Commerce was formed in 1915 with a membership of 32 firms.<sup>60</sup> Such evidence may be multiplied, but it cannot be more than the most unsatisfactory indicator of the extent of American business investments. One is inclined to the opinion that they cannot have been much less than the value of the property of the mission societies.

American holdings of Chinese Government securities may be estimated with fair accuracy. The period from 1900 to 1913 saw many ventures in which Americans were interested, come to nothing. The Canton-Hankow concession has been dealt with. Other plans which would have involved American capital if they had been successful were associated with Manchuria. The reasons for American interest in Manchuria probably are not easy to find on the simple theory that capital follows trade or on the theory which has sometimes been advanced that capital follows the missionary. No American interest actually in China serves to explain the Manchurian proposals. It is probable that American attention to Russian ambitions in this region at an earlier time brought Manchuria to the attention of Americans, and that the continued centering of international political attention upon Manchuria served to keep it there. Political interest, which involved ultimate economic interest, probably was behind the financial proposals.

The first American proposal may well be cited as an exception to my gen-

---

<sup>57</sup> *China Year Book*: 1914, p. 658. *China Year Book*: 1916, p. 617.

<sup>58</sup> Lee, Frederic C., *Currency, Banking, and Finance in China*: Washington, 1926, p. 94.

<sup>59</sup> Bennett, R. C., "American Banks taking their Place in China," *China Weekly Review Supplement*: June 30, 1923, p. 10. America's First Foreign Banking Venture, *Millards* (later *China Weekly Review*): March 23, 1918, vol. 4, no. 4, pp. 110, 111.

<sup>60</sup> "Annual Report of the President." *Millards* (later *China Weekly Review*): June 19, 1920, vol. 13, no. 3, p. 119.

eralization. It was Harriman's plan for a round-the-world transportation system. It was probably a business venture of an American sort, made at a time when American business methods were less popular abroad than they have become. One may suppose a continental observer saying of this and Secretary Knox's plan that they were attempts at "rationalization" under unfavorable circumstances. The failure of Mr. Harriman's plans and the ambitions of Willard Straight brought about the attempt to put through a joint British-American project for a railroad from Hsinmintun to Aigun. The British contract for the line from Hsinmintun to Fakumen was signed in 1907, but the Japanese prevented its being carried out, relying upon certain secret protocols attached to the Sino-Japanese Treaty of December, 1905.<sup>61</sup> The wider issues involved can not be dealt with here, and the informed reader will have reflected upon them.

The Knox plan<sup>62</sup> for the rationalization of the Manchurian railways and the Chin Chow-aigun proposal<sup>63</sup> met with the opposition of Japan and Russia. It is probable that political considerations and the economic interests of both powers, whether the economic interests were real or not, explain the failure of these projects. It would not have been easy to finance large projects in the United States, but there would no doubt have been sufficient funds for any of these proposals. We may conclude that these projects differ from the early Canton-Hankow project in that the motive for them and their failure is not to be found in the lack of investment funds in America, but in the international political situation in the Far East. And, it may be added, the situation in the Far East was thought of in terms of the politics of Europe.

The Manchurian efforts of the United States and the keen interest of the Taft administration led to American entrance into the three power group which undertook to finance the Hukuang Railways. These comprised the Hunan section of the Canton-Hankow and the Hupeh section of the Hankow-Ichang Railway. President Taft added a touch of the spectacular to the negotiations by a personal telegram to the Chinese ruler in which he requested "equal participation by American capital in the present railway loan."<sup>63</sup> This was arranged and the Four Power group—the Old Consortium—came into existence. The Hukuang Railways loan contract was signed on May 20, 1911,<sup>64</sup> The American interest in Manchuria had continued and the American banks had signed a preliminary agreement for a currency reform and industrial development loan on October 27, 1910.<sup>65</sup> This agreement was turned over to the Consortium. Since Manchuria was involved the Japanese and the Russians were interested and they made successful efforts to enter the Consortium.<sup>66</sup> Since Japan and Russia were both capital importing

<sup>61</sup> Willoughby, W. W., *Foreign Rights and Interests in China*: Baltimore, 1920, pp. 312-14. Hornbeck, S. K., *Contemporary Politics in the Far East*: N. Y., 1916, pp. 259-60. The whole chapter deals with the proposals under discussion.

<sup>62</sup> Both dealt with in Secretary Knox's letter of Nov., 1909, to the British Government. *U. S. For. Relations*: 1910, p. 234.

<sup>63</sup> The telegram is reprinted in Willoughby, *Foreign Rights and Interests in China*: Baltimore, 1920, p. 551.

<sup>64</sup> MacMurray, *Treaties and Agreements*: vol. I, p. 866.

<sup>65</sup> MacMurray, *Treaties and Agreements*: vol. I, p. 851.

<sup>66</sup> Agreement of June 18, 1912. MacMurray, *Treaties and Agreements*: vol. II, p. 1021.

nations, one is led to reflect upon the nature and the functions of the Consortium.

This Six Power group soon entered into negotiations for the Reorganization Loan,<sup>67</sup> but a change of administration in the United States brought about the withdrawal of the American banks before the loan contract was signed.

In a statement given to the press in explanation of President Taft's telegram, the Secretary of State had given as one reason for American insistence the fact that the Hukuang Railways loan was different from earlier loans. It involved the general revenues of the Central Government of China and earlier loans had not. It was desirable for the United States to participate, for important questions might arise as the result of the nature of the pledge.<sup>68</sup> In the reply of the American Government to the request of the American group of bankers for support, dated March 18, 1913, we are told that one reason for the withdrawal of such support lies in the fact that certain Chinese revenues are pledged. These revenues rest upon taxes which are to be administered by foreign agents and the conditions of the loan "touch very nearly the administrative independence of China."<sup>69</sup> Here we have neatly illustrated a dilemma which has confronted America throughout the history of her relations with China. Will American policy be forwarded best by coöperation, by insisting upon coöperation, if necessary, or by independent action, by refusal to coöperate upon occasion? This has been erected by some into a choice of policies. It is, rather, a choice of methods and no general rule is possible. The opposition in a modern government, to use an analogy, cannot determine in advance whether it will compromise or fight. It depends.

The Reorganization Loan of 1913 carried provision for the repayment of advances made by the Six Power Group while the loan was under negotiation and for the repayment of certain provincial loans. This disposed of any American holding of government obligations to April, 1913. The Americans had taken part in a loan of Shanghai Tls. 3,500,000 to the Shanghai Taotai in 1910 and in the Hupei Provincial Loan of 1911 for Hankow Tls. 2,000,000.<sup>70</sup> The repayment of outstanding obligations left them, so far as the records show, with only the American share of the Hukuang Railways loan outstanding. We may be fairly certain that no new loans were made during the remaining months of 1913, for, as a Chinese student of the subject remarks, American finance in China reached "a period of total stagnation" with the withdrawal of government support.<sup>71</sup>

The American holdings of Chinese securities may be arrived at by setting down the American share in the Hukuang Railways loan. There may have

<sup>67</sup> Contract signed by the Five Power group in April, 1913. Text in MacMurray, *Treaties and Agreements*: vol. II, p. 1007.

<sup>68</sup> The statement is reprinted in Willoughby, *Foreign Rights and Interests in China*: ed. of 1920, pp. 551-2.

<sup>69</sup> Text in MacMurray, *Treaties and Agreements*: vol. II, p. 1025.

<sup>70</sup> MacMurray, *Treaties and Agreements*: vol. I, pp. 805 and 902.

<sup>71</sup> Tan, S. H., *The Diplomacy of American Investments in China*. This is an unpublished dissertation of 1927 in the Library of the University of Chicago. My references to it are few because it is not generally available. It ought to be published.

been American holdings of earlier securities floated in Europe, but I am informed by American bankers that they were few before the end of the war in 1918. The Hukuang loan was for £6,000,000. The rate of interest was 5%. It was shared equally among the interested countries and the redemption of the loan was to begin in 1922. The amount outstanding was \$7,299,000, on January 1, 1914.

Any recapitulation serves to commit me to a more definite statement than I care to make. If I were obliged to estimate American investments in China as of January 1, 1914, I should offer the following figures with the understanding that they may be drastically revised as a result of further investigation: Business investments, \$25 million; American holdings of Chinese securities, \$7,299,000; property of mission and philanthropic societies, \$25 million. The total I would put between \$50 and \$60 million.

The final period to be considered is that since the European War. It may be called the present if the term can be stretched to cover the years since 1925, for much of the detailed information goes back to that year. The lack of late information is less damaging to the present value of the study since it is the general opinion that very few foreign loans have been negotiated by the government now in power in China.

The European war brought a remarkable increase in American trade with China and in other American interests in that country. This was followed by a sharp decline in 1921. More recently there has been steady growth at a higher level than before the war. Between 1913 and 1927 the trade of China more than doubled and the American share in that trade doubled also. This is borne out by the American statistics which show an increase from \$54 million in 1912 and \$65 million in 1913 to \$263 million and \$245 million in 1926 and 1927. The only available figures for 1928 show a total trade for the United States with China, Hongkong, and Kwantung of \$321.8 million.<sup>72</sup> A characteristic of American trade with China during this period was a return to the import-export relation of the 19th century. China's exports to the United States exceeded her imports from the United States until 1928. The percentage of China's trade which was with the United States was 17% in 1926, and 15% in 1927.

A similar change is recorded in the field of shipping. From the eighties until 1918 American shipping was regularly 1% or less of the total shipping in the Chinese trade. In 1920 it reached 5%, and in 1927 it was just under 5%. There was in 1928 an American company with steamers on the upper Yangtze, and the Standard Oil Company is reported to have had 12 boats in Chinese waters.<sup>73</sup> That the increase in American tonnage on the Pacific was the result of American activities during the war needs no comment.

The number of American firms in China is reported by the customs to

<sup>72</sup> Mann, Lawrence B., "Geographic Distribution of Foreign Trade in 1928," *Commerce Reports*: Feb. 25, 1929, p. 462. The corresponding total for 1927 was 278.2 million.

<sup>73</sup> Great Britain, Dept. of Overseas Trade, *China*: London, 1928. Page 29 states that 11 American ships were on the upper Yangtze. Standard Oil boats are listed in *China Year Book*: 1928, p. 722.

have been 551 in 1927, and the American population in China to have been 6,970. The year 1925 is perhaps a better one to judge by since many American residents were away during 1927. In 1925 the customs statistics report 482 American firms and 9,844 residents. American firms were 6.2% of all foreign firms in 1925, and 7.3% in 1927. The percentage which the American population formed of the total was 2.9 in 1925, and 2.3 in 1927. The percentage of American firms was again what it had been in 1899, but the great Russian and Japanese population of Manchuria kept the population percentage low.

The American authorities give figures which are somewhat larger. The 1926 edition of the *Commercial and Industrial Handbook* gives 12,530 as the population and 617 as the number of firms. A list of American firms in China compiled by the Department of Commerce in August, 1928, includes 660 firms. About 50% of these firms were in Shanghai where American business has had its center since the middle of the last century, and the number in Manchuria was about 10%.

The American missionary population in China was about half the total American population before 1927, that is, 6,000 missionaries in a total American population of 12,000. This is to be compared with 1,000 missionaries in 1900, and 2,500 in 1914. One of the results of the war was to increase the number of American Catholic missionaries. In 1908 a Franciscan priest reported that "he knew of only seven American Catholic missionaries in the Empire."<sup>74</sup> The latest estimate is 269 for a recent year.<sup>75</sup> The number of hospitals in China supported by American Protestant societies was 152 in 1919 and the number of schools so supported may be indicated by stating that there were 193 middle schools for boys.<sup>76</sup>

It is not necessary to enumerate schools and hospitals for this recent period, for we have estimates of the value of mission property and of remittances to China for the work of philanthropic societies. The work of preparation for the Washington Conference included the drawing-up of an estimate of the amount annually expended for philanthropic and educational work in the Far East. The amount so remitted by the leading societies for the latest year for which statistics were available was \$7,345,597.<sup>77</sup> Another estimate by A. L. Warnshuis, published in 1927, puts the annual expenditure of "American Missionary Agencies" at "not less than \$10 million."<sup>78</sup> These totals, I believe, take into account the expenditures in China of the Rockefeller Foundation. It is not so certain that they take into account the increased contributions of American Catholics, but I can find no separate estimates of the amount of such contributions that went to China. The

<sup>74</sup> Latourette, *History of Christian Missions in China*: p. 540.

<sup>75</sup> Goodrich, C., "American Catholic Missions in China," *Ch. Soc. & Pol. Sc. Rev.*: vol. XI, no. 3, p. 427.

<sup>76</sup> *Christian Occupation of China*: pp. 346-7.

<sup>77</sup> Patton, C. H., *The Business of Missions*: N. Y., 1924, p. 192.

<sup>78</sup> Warnshuis, A. L., "Christian Missions and the Situation in China," *Annals of the Amer. Acad.*: July, 1927, vol. 133, p. 81.



American Red Cross has at times spent considerable sums in China, but during the past few years the amount has been small.<sup>79</sup> The available estimates put the remittances to China of American mission and philanthropic societies at about \$10 million a year.

The total value of the property in China of these societies has been estimated also. One estimate which I believe to have been made some years ago by A. L. Warnshuis is that "the capital invested in schools, colleges, hospitals, churches, houses, and lands is . . . approximately \$80 million."<sup>80</sup> This must be compared with the estimate of the State Department. This estimate gives the total for reports received to October, 1928, as \$52,109,073 for philanthropic and mission investments. It is probable that the estimate of the State Department is more carefully made and that the higher value of silver at an earlier time helps to explain the \$80 million estimate. In any case, we have the two estimates of \$50 million and \$80 million.

When we turn to the estimates of business investments we find differences which are more difficult to explain. We have every reason to suppose that American business investments were several times as large in 1928 as in 1914. The trade statistics, the number of firms, and the amount of American shipping have already been dealt with. The number of American banking corporations doing business in China is four.<sup>81</sup> The effect of the war is illustrated by Lee's comment that when he began his investigation there were seven and that the number had since been reduced to four.<sup>82</sup> The China Trade Act has provided for the federal incorporation of American companies doing business in China.<sup>83</sup> American chambers of commerce exist in seven of the open ports of China and there is a central organization known as the Associated American Chambers of Commerce in China which was created at Shanghai, October 23, 1922.<sup>84</sup> Americans are the owners of industrial plants and office buildings in Shanghai and Tientsin and of such institutions as the American school at Shanghai.

The total value of such business investments was estimated for about 1924 by Lee, who had spent "the major portion of the years 1921 and 1922"<sup>85</sup> in China. "The investment of American firms operating in China in lands, buildings, and other equipment, other than stocks on hand, is extremely difficult to estimate. The known investments of the larger firms amount to \$20 million gold. A conservative estimate of the total of such holdings would therefore be around \$30 million gold."<sup>86</sup>

The estimate of the State Department is not to be compared with Lee's

<sup>79</sup> Hall, Ray, *The Balance of Int. Payments of the U. S. in 1928*, p. 35, states payments abroad by the American Red Cross to have been \$517,817 in 1928.

<sup>80</sup> Warnshuis, A. L., *op. cit.*, p. 81.

<sup>81</sup> *Commercial Handbook of China: 1926 ed.*, p. 172.

<sup>82</sup> Lee, *Currency, Banking and Finance in China*: p. 93.

<sup>83</sup> Reprinted as amended in February, 1925, in an appendix to the *Commercial Handbook of China*, ed. of 1926, p. 783, and discussed by Willoughby, *Foreign Rights and Interests in China*: Baltimore, 1927, vol. II, pp. 930-942.

<sup>84</sup> *China Weekly Review*: Oct. 28, 1922, vol. XXII, no. 9, p. 304.

<sup>85</sup> Lee, *op. cit.* IX.

<sup>86</sup> Lee, *op. cit.*, p. 123.

estimate without making allowance for the fact that it does include the value of stocks of goods on hand. Otherwise, I believe, the two cover the same field and may be regarded as estimates of the property in China owned by Americans. The State Department's estimate for "Business Investments" is \$95,352,836 and I shall refer to it as "the \$100 million estimate."

It is probable that Lee would have added a sum equal to his estimate if he had been asked to estimate the value of the stocks of goods on hand and in the possession of American firms in China. The difference must be attributed to his unwillingness, which is quite understandable, to make a rash estimate. If we accept the estimate of the State Department as representing the facts, do we then have a satisfactory estimate? The answer to this question depends in part upon one's interpretation of the term "investment."

It seems to me a defensible point of view to accept as international investments all movements of funds from one country to another which are the result of differences in rates of return on capital and which in turn cause, in the present or future, movements of funds in the opposite direction. The valuation of such investments may be in terms of the original movement of funds or in terms of the later and opposite movement of funds. This means that American investments may be valued according to the payments which were made to bring them into existence or they may be valued according to the return they bring to their American owners. It seems to me more reasonable to value them in terms of the return they bring. This means a capitalization of the net income of American business investments in China. In the language of the business man it means taking into account good will.

The estimate of the State Department is a valuation of American physical property in China, which did not take into account good will or return to the investor. A recent transaction gives us some information concerning good will.

The newspapers have reported recently the purchase by American interests of the plant of the Electricity Department of the Shanghai Municipal Council. The price to be paid is Shanghai Tls. 81 million or about \$50 million. When these payments have been made there will have been added to American business investments in China, by this one transaction, a considerable fraction of the earlier business investments. This must be recorded here, although it comes later than our most recent estimate.

The bid of the American and Foreign Power Co. was commented upon in the press of Shanghai during the past few months and it has been said that it was from two to three times the value placed upon the physical plant of the Electricity Department. It is plain from this that physical valuation alone does not represent the investment in this case. I will not attempt to apply this ratio to the estimate we have of the value of American business property.

We may leave the subject of business investments with the general statement that the latest estimate available puts the direct investments under this heading at about \$100 million.

Certain agreements which have been abandoned would have brought into existence investments difficult to classify. They would have involved business investments, but in such terms as might at any time have involved the Chinese Government. The agreement between the Chinese Government and the Standard Oil Company for the exploitation and operation of oil fields in certain provinces is an example.<sup>87</sup> It would have brought into existence a corporation whose stock was held by the Standard Oil Company and the Chinese Government. A similar contract is that between Henry Hussey, acting on behalf of an American syndicate, and the Chinese Government.<sup>88</sup>

We come next to American holdings of Chinese securities and the obligations of the Chinese Government to Americans.<sup>89</sup> To arrive at a total I have accepted the information given in various published lists which may be generally accepted as reliable. It is possible that a student who had been in close touch with the financial transactions of the Chinese Government during the past year, some one in the Ministry of Finance, or someone on the Kemmerer Commission which has been in China since January, 1929, could make corrections. I assume that the present Chinese Government has not attempted to select certain unsecured obligations for payment, but will await the results of a complete study. One would suppose this from the way in which the subject was dealt with at the Chinese National Economic and Financial Conferences held in Shanghai in 1928,<sup>90</sup> and from the fact that foreign debts are among the subjects to be dealt with by the Kemmerer Commission. I assume also that few new foreign obligations have been undertaken by the present government. This seems the more reasonable when it is understood how rapidly the internal obligations of the Chinese Government have grown in recent years. It is estimated that on July 1, 1928, the outstanding internal loans of the "Peking" Government amounted to \$208 million, Chinese currency, while outstanding internal loans of the "Nanking" Government were no less than \$301 million.<sup>91</sup> It seems evident from this that the chief reliance of the present government has been upon borrowing within China.

For the secured loans we have a recently published list by E. Kann and J. Baylin, which Mr. Kann of Shanghai has kindly made available. For unsecured loans and other obligations I have accepted the lists as published in the *China Year Book*, 1928. There are two lists; one showing obligations according to the Chinese Financial Readjustment Commission (1927) and

<sup>87</sup> MacMurray, *Treaties and Agreements*: vol. II, p. 1109. (See note cancelling the agreement and creating obligation of the Chinese Government for the payment of \$543,703.89 on p. 1111.)

<sup>88</sup> Printed as Annex XII to *List of Contracts of American Nationals Submitted under Resolution XI of the Conference on the Limitation of Armament*: Washington, 1925. A similar plan may have been behind a venture of the Orient Mines Company which is listed by Eldridge, F. R., *Trading with Asia*: New York, 1921, p. 399.

<sup>89</sup> Negotiations which did not result in loans have in most cases not been mentioned, even when their political importance is great, as in the case of the formation of the new Consortium in 1918.

<sup>90</sup> I am informed that the Chinese Government expects to publish English translations of the proceedings of their conferences shortly. Mr. K. K. Liu, a student at the University of Michigan, has been kind enough to go over the Chinese text with me.

<sup>91</sup> *Commerce Reports*: August 5, 1929, p. 325. The figures, we are told, were "compiled by a large American financial concern."

the foreign delegations to the Tariff Conference of 1926; the other showing the obligations of the Ministry of Communications.

The results of the study of these lists of obligations is shown below:

AMERICAN LOANS TO CHINA  
I. SECURED LOANS AS OF JAN. 1, 1929

Date of Issue	Mat'y	Denomination of Loan	%	Countries Involved	American Agency	Amer. Share Outstanding in U.S. \$
1911	1951	Hukuang Railways	5	England, France, Germany, U. S.	The American Group	\$ 7,512,670
1919	1921	Republic of China Treasury Notes of 1919	6	United States	Continental & Commercial Tr. & Sav. Bk. of Chicago	8,261,760
1919	1921	Republic of China Gold Notes of 1919	6	United States	Pacific Development Corp.	8,497,500
TOTAL						\$24,271,930

II. UNSECURED LOANS AS OF DEC. 31, 1925

	U. S. \$
Washington Banks for Educational Expenses.....	67,555.00
Munsey Trust Co., Educational Expenses.....	20,000.00
Grand Canal Improvement Loan.....	1,242,956.96
American International Corporation	
Chuchow-Chingchow Railway .....	1,630,209.56
Siems and Carey	
TOTAL	\$2,960,721.52

III. OBLIGATIONS TO AMERICAN FIRMS, AS OF DEC. 31, 1925

LIST OF DELEGATION TO TARIFF CONFERENCE AND FINANCIAL

READJUSTMENT COMMISSION

	U. S. \$
American Trading Co., (Shanghai Mint).....	702,349.22
American Trading Co. (Hankow Paper Mill).....	63,258.80
Wah Chang Trading Corporation (Shanghai Mint).....	203,548.34
Hsin Fou Co. (Shanghai Mint).....	17,601.70
Hsin Fou Co. (Shanghai Mint).....	29,163.50
Anderson, Meyer & Co. (Hankow Paper Mill).....	1,953.98
American Metal Co. (Canton Mint).....	676,247.91
American Trading Co. (Anking Mint).....	186,376.97
American Trading Co. (Lungyen Iron Mining Co.).....	72,927.43
American Trading Co. (Bureau of Engraving).....	3,649.83
American Trading Co. (Bureau of Engraving).....	16,204.69
Anderson Meyer & Co. (Ministry of War).....	8,298.10
Anderson Meyer & Co. (Aeronautical Dept.).....	3,051.14
Ault & Wiborg (Bureau of Engraving).....	22,774.06
Ault & Wiborg (Bureau of Engraving).....	21,489.04

E. W. Frazar (Ministry of War).....	3,046.74
Pacific Development Corporation (Hunan Mining Bureau).....	60,000.00
T. M. Wilkinson Co. (Wharves at Foochow).....	30,000.00
Curtis Aeroplane & Motor Co. (Training of Naval Cadets).....	9,448.34

Subtotal 2,134,958.47

<i>List of Ministry of Communications:</i>	\$ Chinese Currency
Baldwin Locomotive Works .....	3,843,084.76
W. W. Fowler .....	2,305,584.64
American Locomotive Co. ....	3,189,320.90
Steel Products Corporation .....	1,590,574.00
W. W. Fowler Co.....	4,077,812.06
W. W. Fowler Co.....	900,493.14
Anderson, Meyer & Co.....	171,698.68
American Trading Co. ....	37,210.03
Anderson, Meyer & Co. (Telegraph).....	54,613.08

Chinese \$ 16,170,391.29  
Subtotal U. S. \$ 8,085,195.65

TOTAL U. S. \$ 10,220,154.12

IV. AMERICAN PURCHASES OF CHINESE SECURITIES IN EUROPE  
ESTIMATE OF FREDERIC LEE

Chinese Government Reorganization Loan:	
Russian Series .....	\$ 2,500,000.00
Paris and London Series.....	250,000.00
Chinese Imperial Government Gold Loan of 1895.....	2,000,000.00
Other Issues (Estimated).....	4,250,000.00

Total \$ 9,000,000.00

V. RECENT LOANS (UNVERIFIED, NOT IN GRAND TOTAL):

Radio Corporation of America.....	\$ 170,000.00
<i>(New York Times, Nov. 7, Dec. 25, 1928)</i>	

GRAND TOTAL, (omitting V.) \$46,452,805.64

The reader is asked to consider the larger and the smaller of two totals of American investments for 1929 which may be arrived at from the figures presented. Taking the value of the property of American mission and philanthropic societies at \$52 million, business investments at \$30 million, and American holdings of Chinese securities and the obligations of the Chinese Government at \$46 million, we arrive at an estimate of \$128 million. Taking the first at \$80 million, the second at \$100 million, and the third at \$46

million, we arrive at an estimate of \$226 million. If now we eliminate the property of mission and philanthropic societies on the ground that they are not investments in the proper sense of the word, we may put the estimate of American investments in China, from available information, at \$146 million.

Certain conclusions and generalizations are offered, based upon the account of American investments in the preceding pages. These conclusions are numbered for convenience in referring to them and not because I suppose they can be withdrawn from the context or considered independently of each other.

1. Throughout the hundred years ending in 1928 direct American business investments in China have been greater than any other form of American investment. The opinion may be ventured, from what we know of American foreign investments before 1914 and from the history of foreign investments in China, that direct business investments are an early stage in international capital movements.

2. Americans were late in entering the field of loans to the Chinese Government and in this field they have not been either important or successful. A certain immaturity is revealed in the relation of the Americans to the old Consortium and in the relation of the bankers to the State Department. Government initiative is not characteristic of American economic activity in fields where the American business man is at home.

3. The geographical distribution of American business investments is such as to put the center at Shanghai. American holdings of mission property are relatively greater in the southern part of China. American interest in loans to the Chinese government has frequently centered attention upon Manchuria. The explanation is, probably, that business investments have followed trade; that mission activities have been maintained where they got an early start; and that loans to the Chinese Government have been the result of the international political situation in the Far East.

4. The amount and distribution of American investment in China is, largely, the result of the position of the foreigner in China in the past and of America's pre-war place in the field of international finance. Significant changes in both these respects have taken place and are taking place. We do not yet know what consequences will follow.

I turn for a moment to wider considerations than those touching American investments only. Looking upon the flow of capital to China, one must admit that it has not been great. The general reason I have stated to be the passive resistance offered by the social, economic, and political organization of China. To this must be added the international rivalries of the foreign powers and the position of the foreigner in China. Investment has taken two forms and the barriers to the free flow of capital may be observed in each case. In the case of loans to the government, the barriers were the very nature of the government and the jealous quarrels among the foreign powers. The foreigners, one may say, brought to bear the psychology of the entering

wedge. In the case of direct business investments the barriers have been the relations which brought into existence the system of treaty ports and extra-territoriality and, behind these relations, the nature of the economic and social organization of China.

Foreign investments in China have had political importance beyond their economic importance, because the Chinese Government has, of necessity, been involved, because foreigners and foreign business establishments are concentrated in the treaty ports, and because the general result of foreign trade, foreign investment and modern equipment in transportation and industry have brought about the disintegration of traditional China.

One is tempted to say that if capital is to flow to China in considerable quantities, a new means of getting it there must be worked out. It is difficult to imagine that the capital for a great railway system could ever be introduced into China by the methods which have prevailed in the loan negotiations in the past. It is difficult to imagine that the capital for great industrial development in China could be brought to China by direct private investments of foreigners in the open ports of the country. It does not follow from this that international agreement concerning China and a changed position of the foreigner in China will make a fundamental difference. I believe it to be generally true that the flow of capital from developed countries to an undeveloped country is in accordance with the principle of capacity to receive. The fundamental change will be in China's capacity to receive.







